

CITY OF BOUTON

**INDEPENDENT ACCOUNTANT'S REPORT
ON THE STATUS OF PERIODIC EXAMINATION
FINDINGS AND RECOMMENDATIONS**

**FOR THE PERIOD
DECEMBER 1, 2015 THROUGH MAY 31, 2016**

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City of Bouton

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>(Before January 2016)</u>		
Tim Hudspeth	Mayor	Jan 2016
Sean Averill	Council Member	Jan 2016
Jon Bever	Council Member	Jan 2016
Arlene Griener	Council Member	Jan 2016
Camilla McCain	Council Member	Jan 2016
Linda Neville	Council Member	Jan 2016
Christina Perkins	Clerk	Indefinite

(After January 2016)

Tim Hudspeth	Mayor	Jan 2018
Sean Averill	Council Member	Jan 2018
Bob Slaughter	Council Member	Jan 2018
Arlene Griener	Council Member	Jan 2018
Camilla McCain	Council Member	Jan 2018
Linda Neville	Council Member	Jan 2018
Christina Perkins	City Clerk	Indefinite



Independent Accountant's Report on the Status of Periodic
Examination Findings and Recommendations

To the Honorable Mayor
and Members of City Council:

Faller, Kincheloe & Co, PLC issued a Periodic Examination Report dated September 19, 2014 on the City of Bouton, Iowa covering the period July 1, 2013 through June 30, 2014 pursuant to Chapter 11.6 of the Code of Iowa. The report included certain findings and recommendations pertaining to the City's financial processes and compliance with laws and regulations.

This report includes the findings and recommendations from the City's Periodic Examination Report dated September 19, 2014 and the current status of the City's implementation of the recommendations included in that report. It also includes an additional finding and recommendation for another issue identified during our follow-up procedures.

The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity. Many of the findings included in this report indicate the City Council needs to exercise additional fiduciary oversight.

Oversight by the City Council is essential and should be an ongoing effort by all members. The City Council should exercise due care and require and review pertinent information and documentation to ensure the reliability of financial information and compliance with laws and regulations. Appropriate policies and procedures should be adopted, implemented and monitored to ensure compliance.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Bouton and other parties to whom the City of Bouton may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Bouton during the course of our follow-up procedures. Should you have questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Faller, Kincheloe & Co, PLC
Faller, Kincheloe & Co, PLC

October 17, 2016

CITY OF BOUTON

Report on the Status of Periodic Examination Findings and Recommendations

Findings Reported in the Periodic Examination Report dated September 19, 2014:

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

1. Cash – handling, reconciling and recording.
2. Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
3. Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
4. Payroll – recordkeeping, preparation and distribution.
5. Utilities – billing, collecting, depositing and posting.
6. Financial reporting – preparing and reconciling.
7. Journal entries – preparing and journalizing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

Current Status – Not corrected. The recommendation is repeated.

- (B) City Council Minutes – The following was identified:

- Although minutes of City Council proceedings were posted, the City did not publish a summary of receipts or total disbursements by fund as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should comply with Chapter 372.13(6) of the Code of Iowa. The City should ensure the minutes posted include a summary of receipts and total disbursements by fund, as required.

Current Status – Partially corrected. A summary of receipts was included in the minutes tested, but total disbursements by fund was not included.

- (C) Investment Policy – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation – The City should adopt a written investment policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa.

Current Status – Not corrected. The recommendation is repeated.

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- (D) Official Depositories – A resolution naming official depositories has not been adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa.

Recommendation – A resolution in amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the City Council as required.

Current Status – Corrected. The City adopted resolution 2014-4 naming an official depository including a maximum deposit amount.

- (E) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City's Annual Financial Report contain a "summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures..." The City's Annual Financial Report reported beginning and ending fund balances that do not agree with the City's records.

Recommendation – The City should ensure future Annual Financial Reports agree with the City's records.

Current Status – Partially corrected. The beginning fund balances included on the City's Annual Financial Report agree with the City's records. However, the ending fund balances did not agree.

- (F) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City does not receive an image of the back of each cancelled check for its bank accounts.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks as required by Chapter 554D.114 of the Code of Iowa.

Current Status – Corrected. The City now receives the front and backs of cancelled checks with their bank statements.

- (G) Certified Budget – Disbursements during the year ended June 30, 2014 exceeded the amounts budgeted in the public safety, public works, culture and recreation, community and economic development, general government, and debt service functions. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

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Report on the Status of Periodic Examination Findings and Recommendations

Current Status – Not corrected. Actual expenses in the year ended June 30, 2015 exceed the budget in the public works and health and social services functions. Additionally, actual expenses in the year ended June 30, 2016 exceeded the budget in the public works, health and social services, community and economic development and capital projects functions.

(H) **Payroll** – The following was identified:

- The hiring salary and subsequent wage increases for the City Clerk were not documented in the City Council minutes.
- Timesheets are not maintained for all employees and there was no indication of the wages being reviewed and approved by appropriate supervisory personnel prior to preparation of the payroll.
- Documentation of the City's third and fourth quarter IRS Forms 941 were not able to be located by City personnel.

Recommendation – Procedures should be established to ensure timecards are maintained, reviewed and approved by supervisory personnel prior to preparation of payroll. Supervisory review/approval should be evidenced by the supervisor's initials and the date approved. Also the City should keep copies of all forms and reports filed with the IRS.

Current Status – Corrected. The hiring salary for the City Clerk was documented in the City Council minutes. Timesheets were maintained for all employees and document the hours worked as well as proper approval. Documentation of the City's 2015 third and fourth quarter IRS Forms 941 were filed timely and appeared to be correctly calculated.

(I) **Deposits** – The deposits tested were not deposited in a timely manner.

Recommendation – The City should establish procedures to ensure receipts are deposited in a timely manner.

Current Status – Corrected. Deposits tested appear to be deposited in a timely manner by the City Clerk.

(J) **Chart of Accounts** – The City had not fully implemented the Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee on September 25, 2002.

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Report on the Status of Periodic Examination Findings and Recommendations

Recommendation – To provide better financial information and control, the COA, or its equivalent, should be followed.

Current Status – Corrected. The City Clerk uses the COA by using spreadsheets to keep track of the City's revenues and expenses in order to prepare the Annual Financial Report.

- (K) Local Option Sales Tax – Local option sales tax (LOST) receipts are recorded in the General Fund. The LOST ballot requires the receipts be used for specified purposes. During the year, LOST disbursements were not tracked in a manner which documented compliance with the LOST ballot referendum provisions.

Recommendation – The City should establish a Special Revenue, Local Option Sales Tax Fund to record the collection, disbursement, and balance of all LOST funds to document compliance with the LOST ballot referendum provisions.

Current Status – Partially corrected. The City records the collection and disbursement of Local Option Sales Tax money using a Special Revenue Fund. However, the City does not document how it complies with the LOST ballot referendum provisions.

- (L) Bank Reconciliations – The cash balances in the City's general ledger were not reconciled to the bank account balance throughout the year. For the two months reviewed, bank and book balances did not properly reconcile.

Recommendation – The City should establish procedures to ensure bank account balances are reconciled to the general ledger monthly. Variances, if any, should be reviewed and resolved timely.

Current Status – Corrected. Bank statements are now reconciled by the City Clerk and balances are recorded in the general ledger spreadsheets.

- (M) Bank Loan Agreements – On October 31, 2009 and September 27, 2013, the City entered into bank loans for \$62,617 and \$30,000 for street projects. However, for the September 27, 2013 loan, it appears the City did not comply with the provisions of Chapters 384.24A and 384.25 of the Code of Iowa which require certain authorization procedures to be followed, including posting of a notice of intended action and the time and place of the meeting.

Recommendation – The City should comply with the Code of Iowa requirements before entering into future loan agreements.

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Report on the Status of Periodic Examination Findings and Recommendations

Current Status – Partially corrected. The bank loans entered into on October 31, 2009 and September 27, 2013 have a combined remaining balance of \$10,000 to be paid off by the City in October 2016. The City has contacted bond attorneys in order to be in compliance with the provisions of Chapters 384.24A and 384.25 of the Code of Iowa for new loans to be obtained in fiscal year 2017.

- (N) Debt Service – For the year ended June 30, 2014, the City levied a debt service levy of \$10,000. However, there was no documentation that the City issued general obligation debt which was payable from an annual levy on all taxable property in the City.

Chapter 76.2(1)(a) of the Code of Iowa states:

“The governing authority of a political subdivision ... before issuing bonds shall, by resolution, provide for the assessment of an annual levy upon all the taxable property in the political subdivision sufficient to pay the interest and principal of the bonds within a period A certified copy of this resolution shall be filed with the county auditor or the auditors of the counties in which the political subdivision is located; and the filing shall make it a duty of the auditors to enter annually this levy for collection from the taxable property within the boundaries of the political subdivision until funds are realized to pay the bonds in full.”

As a result, pursuant to Chapter 76.2 of the Code of Iowa, a copy of the bond resolution should have been filed with Dallas County for the County Auditor to verify the debt as a general obligation subject to “the assessment of an annual levy upon all the taxable property in the political subdivision.” A representative of the Dallas County Auditor’s Office verified the County Auditor’s Office had no record of the resolution from the City of Bouton.

Recommendation – The City should consult bond legal counsel regarding this matter.

Current Status – Not corrected. The recommendation is repeated.

- (O) Accounting Records – The City operates a softball field and related concession stand on City property. Teams pay the City to play on the softball field, and the City collects money from the sale of concessions. In October 2013, the City deposited \$2,385.64 from softball and concession collections for the period from May through October. The City does not maintain any accounting records in relation to these activities.

Recommendation – The City should implement procedures to ensure accounting records are maintained for all City operations.

Current Status – Not corrected. The recommendation is repeated.

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Report on the Status of Periodic Examination Findings and Recommendations

Additional Finding as a Result of Follow-up Procedures:

- (P) Accounting Records – The City owns and rents out a community center. A group of citizens collects the money from renting this facility and from coordinating events using the facility. The group of citizens decides how much of the money is paid to the City, but then spends the remainder of the money without City approval. The City does not maintain any accounting records in relation to the community center.

Recommendation – The City should implement procedures to ensure accounting records are maintained for all City operations.